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25 August 2000

To: Mr. Benon Sevan, Executive Director
Office of the Iraq Programme

From: Esther Stern, Director 
Audit and Management Consulting Division, OIOS

Subject: **OIOS Audit No. AF00/48/1: Review of the Office of the Iraq Programme (OIP)/The United Nations Office of the Humanitarian Coordinator in Iraq (UNOHCI) - Coordination and monitoring issues in North Iraq**

1. I am pleased to present herewith our final report on the audit of the above subject which was conducted in Iraq during March and April 2000.
2. We note from your response to the draft report that OIP has agreed to implement all of the report's recommendations. Based on the response, we are pleased to inform you that we have closed recommendations 1, 2 and 7 in the AMCD recommendation database. In order for us to close out the remaining recommendations -Recommendation Nos. 3, 4, 5 and 6, we request that you provide a time schedule for implementing each of the recommendations. Please refer to the recommendation number concerned to facilitate monitoring implementation status.
3. I take this opportunity to thank the management and staff of OIP and UNOHCI for the assistance and cooperation provided to the auditors in connection with this assignment.

Copy to:
Mr. J. Connor
Mr. J.P. Halbwachs
UN Board of Auditors
Planning and compliance Officer, OIOS
Acting Chief, AMCD Iraq Programme Section





United Nations
OFFICE OF INTERNAL OVERSIGHT SERVICES
Audit and Management Consulting Division

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Audit Report

**Review of OIP /UNOHCI –
Coordination and Monitoring Issues in North Iraq**

25 August, 2000

Audit team:
Dagfinn Knutsen, Auditor-in-Charge;
Raja Arumugham, Auditor
Satish Ratnam, Auditor



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- UNOPS had recommended a number of measures to improve procurement practices in North Iraq, however these had not been implemented. In addition there were a number of procurement activities that could be harmonized which would improve the economy, efficiency and effectiveness of these activities.

At the time of the audit, the Geographical Observers Unit (GOU) were planning to expand their activities in North Iraq. However, their goals and objectives needed to be clarified in order that their functions did not duplicate project review and assessment undertaken by UNOHCI as part of their planned assessment procedures for projects implemented by UN agencies.

I. INTRODUCTION

1. In conjunction with the audit of UNOHCI headquarters (assignment no. AF00/49/1) conducted in Baghdad and North Iraq from 13 March to 5 April 2000, which primarily covered administrative and financial operations, OIOS also conducted a review of coordination and monitoring issues in North Iraq. During this review we visited the North Iraq headquarters in Erbil, and regional offices in Suliminyah and Dohuk.
2. With regard to the second objective, we wrote to you on 17 May 2000 concerning recent developments on the audit of OIP-funded projects and programmes in North Iraq. We will continue to keep you informed of further developments on this subject.
3. A summary of the main issues was discussed with the Deputy Humanitarian Coordinator in North Iraq. He expressed no objections to our findings and, in fact, indicated that some of these issues were under consideration as part of his reorganization of UNOHCI in North Iraq. The Resident Auditor in Baghdad has also provided the recently appointed Humanitarian Coordinator with this summary. Management's comments have been reflected in the report as appropriate and are identified by the use of italics.

II. AUDIT OBJECTIVES

4. The review objectives were to: (i) perform a preliminary assessment of the implementation of UNOHCI operations in North Iraq and to determine whether UNOHCI was adequately coordinating and monitoring projects being executed by UN implementing agencies; and (ii) evaluate the adequacy and effectiveness of auditing arrangements with UN agencies responsible for implementing OIP-funded projects in North Iraq with a view to determine how closer cooperation could be established with the UN agencies audit bodies.

III. AUDIT SCOPE

5. The review covered aspects dealing with programme planning, implementation and evaluation. In this regard we carried out discussions with key officials of North Iraq UNOHCI in, including headquarters in Erbil and regional offices in Dohuk and Suliminyah. We also interviewed officials of the UN implementing agencies at their headquarters in Baghdad and in North Iraq. In addition we examined documentation setting out the work of UNOHCI in North Iraq. In cooperation with the UN implementing agencies we also visited some of the projects being implemented. Our discussions with the UN agencies included their views on auditing aspects of their activities in North Iraq and the basis for closer coordination of the auditing effort.

IV. AUDIT FINDINGS AND RECOMMENDATIONS

A. Project planning issues

Programme planning needs to be better coordinated

6. UN agencies in North Iraq undertake a wide range of OIP-funded projects in the educational, health, food distribution, electricity-generation, settlement, water and sanitation and agriculture fields. Under the current system, UN implementing agencies are responsible for programme planning. These agencies work, in varying degrees, with local authorities counterpart ministries to select projects and determine project requirements. Our review found that UNOHCI's input to project selection was minimal and did not determine if the projects were consistent with the aims of OIP-mandated activities in North Iraq.

7. The primary mechanisms for coordinating OIP-funded programmes included sectoral working groups, heads of agencies meetings, and discussions with local authorities. Sectoral working groups are presently held in each of the three regional offices. However, there is a lack of an overall coordinating mechanism for North Iraq. We also noted that UNOHCI has played only a general role in these meetings and does not necessarily provide input as to the types of projects that are to be implemented. This approach has not achieved the degree of coordination that would be desirable. For example, UNOHCI does not review agency's projects to determine if they fit within the overall framework of the 986 programme in the North.

8. In our opinion, an overall framework needs to be developed in conjunction with all UN implementing agencies and local authorities, and UNOHCI should increase its capacity to coordinate, review projects and maintain overall coordination with the concerned parties. It was our understanding that UNOHCI was proposing to strengthen its capabilities to review and assess UN agencies project proposals. We believe that this is a step in the right direction and, together with a system of evaluating proposed projects, would help to improve the overall effectiveness of the OIP programme in North Iraq.

Recommendation 1

UNOHCI should: (i) develop a planning capacity to formulate, in conjunction with UN implementing agencies and the local authorities, a strategy for project activities in North Iraq, and (ii) play a more formal role in evaluating proposals for projects submitted by UN implementing agencies in order to ensure that they meet OIP objectives (AF00/48/1/001).

9. *In their response to the draft audit report, OIP fully concurred with the recommendation. The recommendation was addressed as part of the proposal for the July to December 2000 budget. A target date of 1 October 2000 has been set to increase staff to address this issue.*

Need for independent project reviews and assessments

10. A vital component of monitoring projects implemented by the UN agencies is to ensure that they have been undertaken in an economical and efficient manner, and that they have met the criteria established by the project-planning document. In this regard, we found that no provision had been made by UNOHCI to review and assess projects carried out by the UN implementing agencies. While these agencies have some internal capacity to carry out such reviews, many of the projects carried out by them in the North are not part of their normal activities. Their capacity to carry out such assessments may therefore be limited. Furthermore, there is a need for these assessments to be independently carried out in order to provide OIP with the necessary assurance and to establish accountability for their implementation.

11. In view of its responsibility for the economical and efficient use of funds under Security Council resolution 986, UNOHCI should consider, as part of its coordination function, engaging consultants to carry out independent reviews of projects implemented by UN agencies. The experts required to carry out evaluations and reviews could either be engaged directly by UNOHCI or by the UN implementing agency with reports submitted to OIP. It would also be appropriate for a requirement for independent review and assessment of project implementation to be included in the terms of reference (TOR) with the UN implementing agencies. In this regard, we found that the memorandum of understandings (MOU) with the implementing agencies does not have a specific requirement for the assessment of projects. In fact, the MOU's do not encompass the implementation of projects, but instead focus on the procurement of materials in accordance with the distribution plan submitted to OIP for approval at each phase of the programme.

Recommendation 2

UNOHCI should establish a mechanism to evaluate and assess projects implemented by UN agencies to ensure that they have met the objectives of the project plan (AF00/48/1/002).

12. *OIP indicated, in the reply to the draft audit report, their agreement with the recommendation. All UN agencies and programmes project outline documents will require systematic review and follow-up as a precondition for funds under the 13 per cent account. "The programme planning section will have the capacity to engage and supervise consultants for more complex studies, evaluations or other analysis.*

Problems identified in project execution

13. In the context of establishing the audit requirements for OIP-funded projects in North Iraq and the need for future audit cooperation, we conducted interviews with officials of the UN implementing agencies and made field visits to UNESCO, WHO and UNCHS projects. In addition, we discussed plans for future projects. Our review found that in several cases, there appeared to have been a lack of planning and in other cases, we questioned the viability of the projects. Our main findings are discussed below.

- A UNESCO chalk factory project in Sulimaniyah, intended to produce chalk for use in schools, was started during Phase I but was still not operational. Our physical inspection of the project and meetings with factory officials and project personnel revealed that so far, only a test run of the plant had been made and that problems found during this stage required further consultation with the German equipment manufacturer to resolve them. We also questioned whether this plant is an economical alternative to purchasing chalk products needed for local schools.
- A planned WHO project to construct a \$50 million, 400 bed hospital in Sulimaniyah did not appear to fall within the OIP mandate. We were informed by WHO that Sulimaniyah was one of the few Iraqi governorates which did not have adequate hospital facilities, and that the provision of such a facility was being requested by the local authorities. At the time of the audit, substantial evaluation and feasibility studies had been carried out by WHO consultants. We also noted that internal discussions had taken place within WHO concerning their mandate and ability to carry out such a large project. Such a large and high profile project could also lead to criticism by the Iraqi authorities. Furthermore, the lengthy construction period may lead to the facilities not being completed, should OIP activities in Iraq cease. In order to address these problems a modular construction approach was being considered. In our view, OIP should further examine the ramifications of this project and the executing agency's ability to carry it out before it is approved.
- As part of its electricity project, UNDP has procured six diesel generators to provide a supplementary power source while the local power grid is being rehabilitated and to serve as a back-up system. We were informed by UNDP that diesel fuel is not readily available in North Iraq and would be costly to supply at an estimated \$10 million. We therefore question the viability of this approach and whether it is consistent with the aims of OIP.
- We physically inspected a UNCHS health facility project in Erbil which was constructed below street level and hence subject to flooding. We were informed that the local authorities had not accepted the hand-over of this facility. It is OIOS's intention to examine this and other projects in our upcoming audit of UNCHS.

These examples illustrate the high risk nature of OIP-funded activities in North Iraq and the need for both OIP to implement better coordination and monitoring mechanisms and for closer coordination of audit coverage.

B. Reporting requirements for UN organizations need to be streamlined

14. In our discussions with UN implementing agencies, many of them indicated that the reporting format required by OIP did not allow them to adequately reflect the results of their project activities. We believe that the reporting procedures should be reviewed and rationalized. For example, UNDP felt it would be useful to include performance indicators and benchmarks in their reports in order to clearly reflect their performance. Including performance indicators as part of the project plan would also enable UNOHCI/OIP to monitor implementing agencies' progress in meeting their plans and would, in turn, result in more informative reporting by OIP to the Security Council.

Recommendation 3

UNOHCI/OIP should review the reporting procedures established for the UN implementing agencies with a view to rationalizing them. The reports should include the use of performance indicators and benchmarks which should form part of the project plan in order to measure performance against established goals (AF00/48/1/003).

15. *In their reply to the draft audit report, OIP indicated that "initial steps in implementing this recommendation have been made by introducing project outline documents with effect from phase VII.*

C. Policy aspects of UN operations need to be closely coordinated

16. Establishing uniform policies in administrative areas, such as harmonizing local salary scales and subsistence rates, would contribute to the economical and efficient function of UN operations in North Iraq and also lead to better relations with the local authorities. UNOHCI should take the lead and coordinate the policy aspects in order to ensure that the UN speaks with "one voice". For example, in discussions with a Suliminyah local authority minister, concerns were expressed that the UN was hiring local staff at very high salaries compared to what the local authorities were paying. According to the Minister, this resulted in a lack of competitiveness on the part of the local authorities that were losing their best personnel. This raises a concern that the salary levels established by UN agencies may have long-term implications for the functioning of the local authorities.

17. Some of the areas where common policies are needed include:

- ❑ Establishing common policies on payment of subsistence allowances to local authorities staff who perform duties, such as inspection of building sites;
- ❑ Harmonizing salaries and benefits for local staff;
- ❑ Establishing procedures for UN implementing agencies to monitor the use of vehicles purchased from 986 funds (13 per cent account vehicles) and leased to local authorities to ensure that their use is consistent with the terms of the lease agreement;
- ❑ Establishing common facilities such as warehouses, workshops, etc. which could eliminate duplication in essential services; and
- ❑ Performing reviews of construction costs which appeared to vary widely among UN agencies constructing similar structures.

Recommendation 4

UNOHCI should, in conjunction with the UN implementing agencies, determine areas where common policies would increase the efficiency and effectiveness of the OIP operations in North Iraq and develop a plan to implement the common policies (AF00/48/1/004).

18. *OIP informed us, in response to the draft audit report, that a standing administrative working group reporting to the Deputy Humanitarian Coordinator and heads of UN agencies and programmes in Erbil would have its first meeting in July 2000. OIP also stated that policy guidelines in various areas are being developed.*

D. Need to harmonize policies for local procurement

19. Procurement, both local and international, is one of the major activities undertaken by the UN implementing agencies in North Iraq. This area involves a high degree of risk that needs to be more actively managed. Each UN implementing agency has its own procurement rules that vary considerably. For example, UNDP has established its own procurement section in Jordan which has been authorized a high level of delegated authority to procure project materials and supplies. Other agencies such as UNCHS have no delegated authority and must obtain approval from their Headquarters before any purchases can be made. This obviously has an impact on project implementation.

20. It was also clear to us that UN implementing agencies were not sufficiently sharing procurement information which has led to a wide disparity in the prices paid for materials. For example, UNCHS imports most construction materials and stores them locally until needed, while WHO generally purchases these materials locally. While it may not be feasible to completely harmonize UN agencies' procurement rules, there are a number of measures that can be taken to facilitate more timely and economical procurement. One such mechanism would be to establish a "Joint Procurement Advisory Committee", coordinated by UNOHCI, to share information and develop common procurement strategies. We also noted that the United Nations Office of Project Services (UNOPS) had conducted a comprehensive study of the UN implementing agencies' procurement practices and had made a number of recommendations in this regard. For example, UNOPS had made recommendations on delegation of authority, tender authority, payment modalities and coordination of programme matters. In our view, the UNOPS recommendations would contribute to the effectiveness of procurement activities in North Iraq and a review should be made of their implementation. Listed below are some areas where a common procurement approach may help to achieve more effective resource utilization.

- ❑ Sharing of pricing information and cost proposals (e.g. construction costs),
- ❑ Establishing a common vendor roster and a standard approach to vendor evaluations;
- ❑ Developing standardized bidding procedures, including procedures for bid opening and evaluation of bids by a joint committee;
- ❑ Establishing common policies and procedures to govern involvement in procurement activities by local authorities (e.g. the need for them to attend bid opening, supplying list of vendors, etc.);
- ❑ Recommending ways to enhance transparency in the procurement process (especially to allay the perception of irregularities by the local authorities);
- ❑ Establishing standard contract terms and conditions (e.g. payment policies for currency fluctuations, delivery terms, audit clause, tax exemption, etc.); and
- ❑ Consideration should also be given to establishing a body to review agencies' technical evaluations and make recommendations on proposals to award contracts.

Recommendation 5

UNOHCI, in conjunction with the UN implementing agencies, should determine areas where common procurement policies can be established and should consider the feasibility of establishing a "joint procurement advisory committee" responsible

for harmonizing policies and procedures (AF00/48/1/005).

Recommendation 6

OIP should monitor the implementation of the dated UNOPS recommendations made in their study dated 26 January 1999 on "Local Procurement Arrangements of UN Agencies in Northern Iraq" (AF00/48/1/006).

21. *In response to the draft audit observation, OIP stated that "...the advantages of a certain amount of harmonization have been recognized – particularly with respect to local procurement. Procurement has therefore been identified as an area of potential involvement of the newly constituted administrative working group, acting on a case-by-case basis as requested by heads of United Nations agencies and programmes in Erbil."* OIP also circulated the draft audit report to the heads of UN agencies and programmes and OIOS' review of their responses indicated that many of the UN agencies believed that procurement policies could be harmonized in some areas. In our view, areas such as establishing a common vendor roster would be feasible.

22. OIP also stated in their reply that the UNOPS' recommendations are under review to ensure compliance with applicable Security Council resolutions.

E. Geographical Observation Unit (GOU) operations

23. We were informed of a plan to expand GOU operations in North Iraq. The GOU's main responsibility is the regular monitoring of humanitarian supplies being distributed in Central and Southern Iraq. Currently there is a small GOU team in the North that has been conducting observations in areas including settlement and education. In order for the GOU observers to conduct useful and credible observations in the North, which essentially entails observing projects implemented by UN agencies, they need to clearly establish their goals and objectives. Furthermore, the GOU in North Iraq needs to be staffed by personnel qualified to assess the impact of the projects being implemented. In our view, they should focus on post-implementation issues to determine benefits of the programmes to beneficiaries and possibly evaluate progress made by UN agencies in achieving their planned goals. We note, however, that with closer coordination being established between UNOHCI and the UN implementing agencies in terms of project planning, monitoring of progress and evaluation of results, a plan needs to be developed to avoid duplication of efforts. We therefore consider it important that an assessment be made of the GOU's role and mandate in North Iraq.

Recommendation 7

UNOHCI/OIP should review the role of the GOU in North Iraq and establish appropriate guidelines to ensure that their function does not duplicate project evaluation established as part of the project plan (AF00/48/1/007).

24. *In response to the draft audit report, OIP stated that "...the role of GOU is expected to concentrate on end-use observations, and on the collection, within its technical capabilities, of thematic, statistical or other information of interest to more than one sector or agency. The GOU will not, and is not intended to, have the technical competence to enter into evaluations,...,which is the purview of implementing agencies and programmes supplemented by special consultancies organized by OIP or UNOHCI."*

V. ACKNOWLEDGEMENT

25. We would like to express our appreciation for the assistance and cooperation extended to the auditors by the management and staff of OIP and UNOHCI.



Esther Stern
Director
Audit and Management Consulting Division, OIOS

